Insights for Emerging Fund Managers

Advice from industry insiders on raising your first fund

June 2020

RAISING YOUR FIRST VC FUND

Raising your first venture capital fund is challenging. It can take an average of 17 months to close and over 100 meetings. Recognizing this, Level Ventures, in partnership with Signature Bank, Runway Innovation Hub, StartOut and The Alliance for Community Development, hosted a virtual panel discussion to provide helpful insights for emerging fund managers.

The panel, moderated by Level Ventures' Ian Foley, included General Partners that successfully raised their own fund and Limited Partners from two institutional investors.

The Panelists

Thorsten Claus
Northgate Capital
Partner

Evan Darr
Invesco
Partner

Vincent Diallo
Interlace Ventures
General Partner

Shruti Gandhi
Array VC
General Partner

The Audience

A total of 541 professionals registered for the event. Of this group, 178 individuals answered live polling questions during the conversation. This subset included an extensive mix of professions and levels of expertise.

Of the polling participants, roughly 60% reported that they currently work in venture capital; several top tier and mid-size venture firms were represented in the group. The remaining 40% held a variety of positions including CEOs of technology startups, corporate strategy and innovation roles, and full-time graduate students, among others.

The following insights and graphs were taken from the panelists' commentary and live polling results from the 178 participants.

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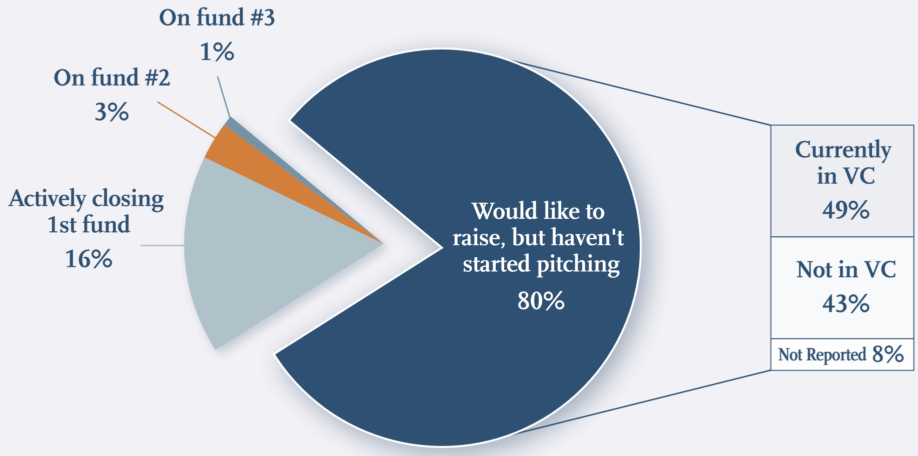


Insights: There has been an explosion of emerging fund managers over the past several years. This can be attributed to a thriving economy providing liquidity for startups and founders, the rise in attention and influence of VC brands, a growing interest in the risk/reward of investing in private markets, and increased accessibility through tech-enabled services, among other factors.

Five things you can do now if you want to raise a fund in the next 12 months:

1. **Establish your investment thesis and strategy.** What do you believe in? How will you achieve it? Here, authenticity and transparency are key as they will ultimately differentiate you from other GPs.

2. **Identify your target LPs.** After developing your thesis, create a profile for your target LP based on who you are, your profile, your network, the fund size, and the focus. This is often the most challenging step but it will save you time and resources when you're ready to fundraise.

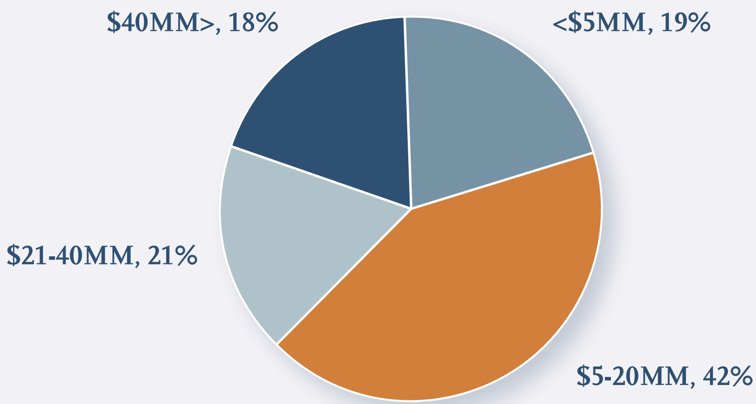
3. **Network, network, network.** Relationships take time to cultivate. LPs especially look to make connection points over a long period of time. Now is a great time to engage, especially if you aren't raising and don't have an ask.

4. **Create content.** Get on Medium, increase activity on Twitter and LinkedIn, seek opportunities to get included in industry publications. Be creative about your delivery and specific with your content. If you are sharing something of interest, LPs will find a way to pick it up.

5. **Recognize that if you aren't already in VC, you may have additional hurdles.** If you are just starting out and have no experience in venture capital or track record, understand that your journey may be more difficult than others already in the industry.

> "When you are raising your first fund, there is an aspiration, and then there is reality. We all have a model of what we want to do… and then there is reality. Do you act on what you are aspiring to be or on what is realistic?"
>
> *Shruti Gandhi, Array VC*

TARGET FUND SIZE



Insights: Panelists agreed the $5-$20MM range is common for first-time funds and noted that the following questions are critical to take into consideration when establishing a target fund size.

Does the fund size align with your target LP mix?
Larger asset allocators, such as pension funds, may not consider an opportunity in the $5MM-$20MM range because they are seeking a larger stake in the fund or are constrained by minimum investment requirements. This range is usually more suitable for the friends and family, family office, and high-net-worth individual sources.

Does the fund size coincide with portfolio construction?
You are going to have to keep reserves. At a smaller fund, you can toggle between check size and number of investments. However, if you have a larger fund because you plan to make more investments, you will have to realign your expectations.

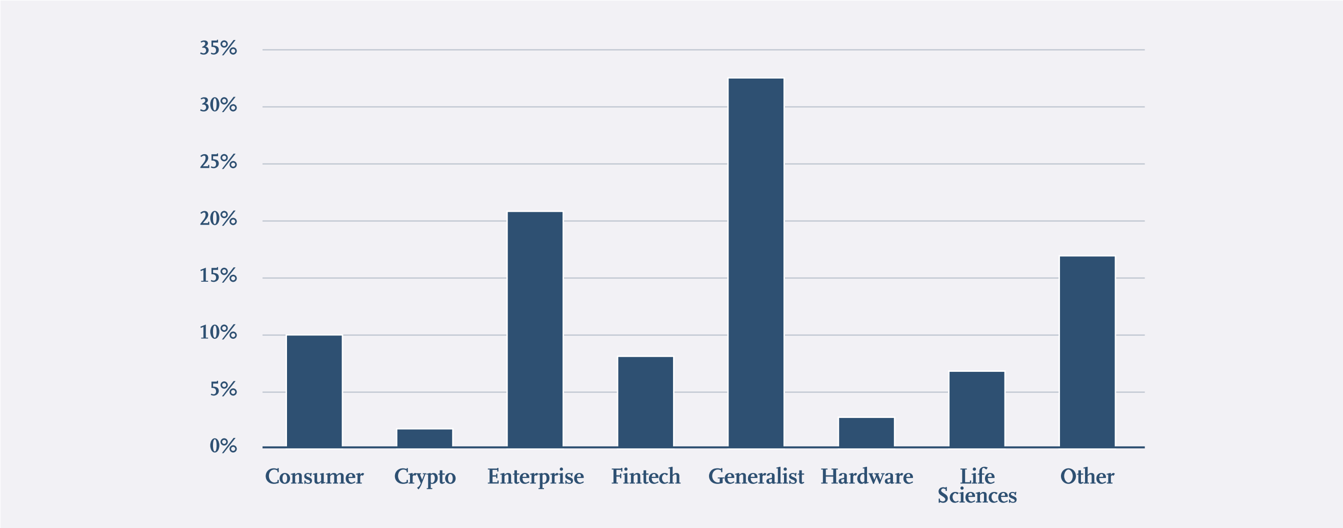
"In the end, it is about how much of your net worth are you putting to work... A high GP commitment is definitely important, and that is a function of net worth, but I need to see it."

Thorsten Claus, Northgate Capital

What kind of GP commitment are you prepared to make?
LPs want to see that their GPs have skin in the game.

Can the expected management fees from the fund support your lifestyle?
On average, an early-stage fund will charge an annual management fee of 2%. You will want to weigh this figure, in addition to your expected GP commitment, against your personal wealth and liquidity as you may need to pull from other resources to get the fund off the ground.

INVESTMENT FOCUS



Insights: Although participants overwhelmingly selected a generalist approach when polled on expected investment focus, our panelists, specifically the Limited Partners, shared that they prefer a specialized focus when evaluating new funds. If you are truly a generalist, however, it's important to have some sort of differentiation – whether it's through differentiation in sourcing or a special relationship with founders – as well as a story to tell to make your approach authentic.

Are fund themes more important than investment focus?

While fund themes are on the rise, our panelists explained that LPs generally don't view a theme as a differentiator. If pursuing a theme, the GP should be transparent in how this will benefit the fund and truly believe that the asset allocation will be more successful following this thesis than not.

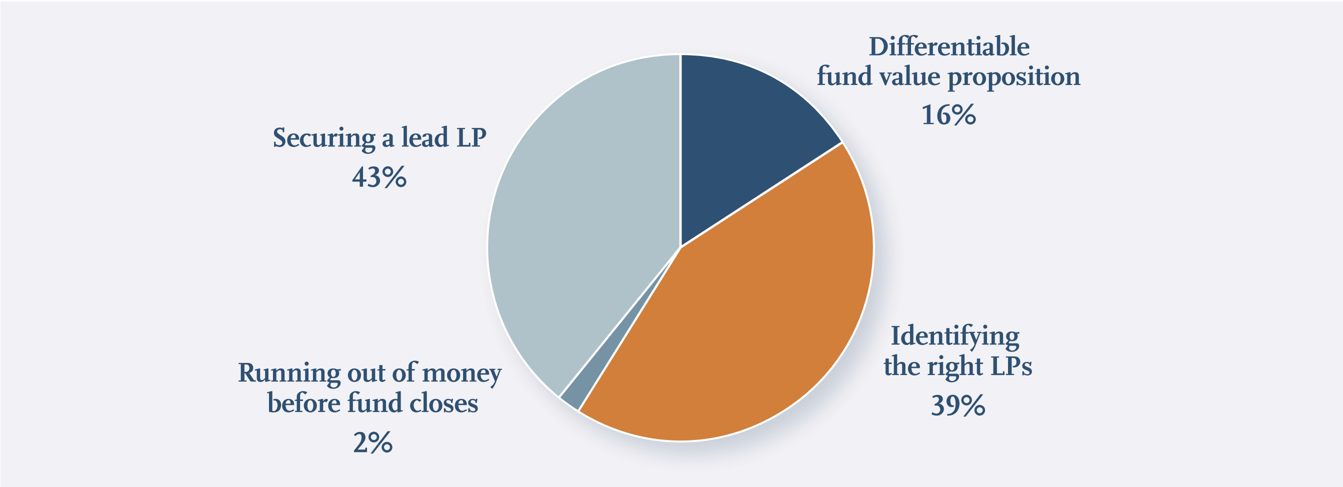
Solo GPs vs. multiple partners?

First and foremost, be authentic about your strategy. If you want to go it alone, make sure you have a clear explanation for why that is the best approach for you at this time.

Be sure to do your due diligence. There are some LPs, institutional investors specifically, that do not typically work with solo GPs. Don't waste your time here. Find LPs that have engaged with and continue to work with solo GPs.

> "You're not going to be able to convince someone to take a chance on you if that's just something that is a risk for them to begin with."
>
> *Shruti Gandhi, Array VC*

BIGGEST CHALLENGE WHEN RAISING YOUR FIRST FUND



Insights: Securing a lead LP and identifying the right LPs are two of the most challenging steps when launching your own fund. Panelists offered advice on how to engage with LPs and maximizing time and impact once a meeting is landed.

> "People get excited about an idea, a company... but not a black box."
> *Shruti Gandhi, Array VC*

How to engage with LPs?

Start with your existing connections in the venture space. Talk to founders, entrepreneurs and other investors in your inner circle. Many may have recommendations for LPs that did not fit their investment focus but could be a match for yours.

Network with junior members of asset allocators. This group—the VPs, principals and associates—is often your best channel in getting in the door and has great exposure to different activities at their firms and portfolio companies.

Cast a net outside of your firm. If you have the option and capacity, consider investing in another firm's fund. As an investor, you will have the opportunity to attend LP meetings and meet and network with the group.

Create original content. As mentioned previously, creating authentic, insightful content is a great way to build your individual brand and start a dialogue with LPs and others in the venture space.

How to make an impression?

Do your homework. Before your meeting, do your research to understand more about the LP's background, scope, approach and how they invest. Ask discovery questions. Even inquiring about what book someone is reading may provide insight into whether they expect a general or more technical pitch.

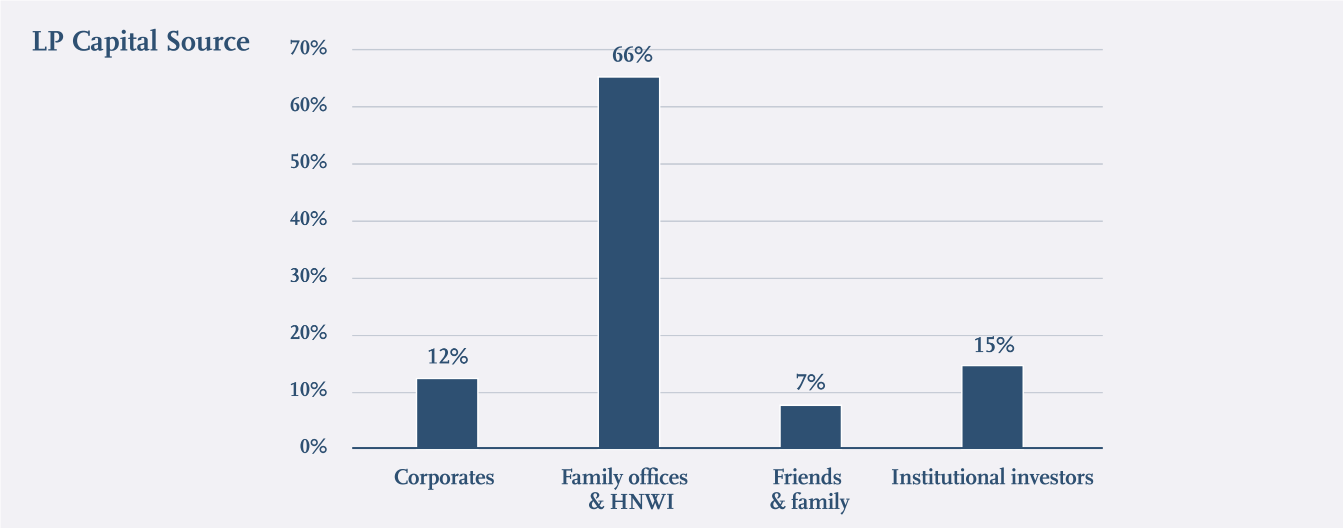
Build excitement around your investments. Share your excitement about a particular company or investment. This can help generate momentum around the larger fund as the relationship and trust are built.

Offer something tangible. If you plan to achieve A, B, and C, show LPs your strategy to work towards those goals and how you plan to close the circle. Updates on your progress also offer a great opportunity for check-ins weeks or months after the initial meeting.

Be prepared to be flexible. In order to get an anchor LP, you may have to give up more GP carry than originally expected.

Know your ultimate audience. Everyone has a boss. Keep in mind that you are selling to the LP's LPs as well.

SECURING LP CAPITAL



Insights: When polling participants on where they believed they would secure the most LP capital, it is not surprising that Family Offices & HNWI was the top answer. This category is often the easiest to approach and is typically a better fit for smaller, earlier stage funds. It is important to note, however, this group is more susceptible to market volatility and outside factors than others.

Corporates and institutional investors tend to be the most difficult groups to break into. Although they write larger checks, they take longer to reel in.

Don't discount founders and entrepreneurs in your existing circle as potential LP material. If you've supported someone in the past, they may be willing to support you in your new venture. This group can be a great resource in introducing you to other founders that fall into the high-net-worth individual category or serve as an LP themselves.

Handling Rejection

LPs are approached by hundreds of thousands of GPs each year. It is important to enter this role with an understanding that **rejection will happen**. See below for tips and testimonies from our panelists on how to handle rejection when it happens.

1. Don't take it personally.

   "It's not personal; it's your role that I can't deploy money into... The role that you have—the fund that you have, the size, the timing, whatever is it—is what I cannot find conviction in, and that role I have to say no to, but not you personally." Thorsten Claus, Northgate Capital

2. Be prepared for it.

   "It is very awkward to be around people who reject you all the time at the same events... It's hard to not take it personally, but you can't because it's not about you. It's about many other things. That's something you should be prepared for." Shruti Gandhi, Array VC

3. Stay positive, persevere, and understand only a few need to support your vision to make it a reality.

   "Recognize that there is a lot out there and your story isn't going to resonate with everyone. But you only need a few to start a fund." Evan Darr, Invesco

RESOURCES

Venture capital is a complex industry to navigate. We're here to help.

Ian Foley, *Venture Partner*
Level Ventures | ian@level.ventures

VC firm with a unique platform to support investment managers through capital raises and access to a curated network of resources to help investors build an independent track record, create an investment thesis, and launch their own fund

Michael Fulton, *Managing Director of Venture Capital Services*
Signature Bank | MFulton@signatureny.com

Full-service commercial bank with a dedicated Venture Banking team offering a full range of lending and deposit solutions for venture-backed startups and their investors

Sandra Miller, *Chief Executive Officer*
Runway Innovation Hub | sandra@runway.is

San Francisco-based provider of all-inclusive workspaces, corporate innovation services and events to a global community of tech startups and enterprises

Sarah Burgaud, *Chief Operations Officer*
StartOut | sarah.burgaud@startout.org

Organization connecting the LGBTQ+ business community with diverse and accomplished investors and industry professionals to amplify their stories to drive economic empowerment

Naima McQueen, *Executive Director*
The Alliance for Community Development | naima@alliancecd.org

Organization dedicated to promoting investment in low-income Bay Area communities and increasing access to capital for underrepresented entrepreneurs including but not limited to women, people of color, immigrants, and veterans